

Hindustan Unilever Ltd.

Personal care revives; further traction likely



PhillipCapital (India) Pvt. Ltd.

FMCG: Quarterly Update

28 July 2014

HUL reported Q1FY15 numbers were significantly ahead of our and consensus estimates. The comprehensive beat was driven by higher than expected volume & price growth and judicious cost structure management. The key feature of the quarterly performance was the bounce-back of growth in the personal care category amidst a highly challenging operating environment. Considering the strong revival in the personal care category, our estimates see sharp upgrade for FY15 and FY16. We raise our target price and multiple in-line with the stock re-rating to Rs 770 valuing the company at 35x FY16E earnings. Considering the upside from current levels we upgrade our recommendation to **BUY**.

Volume and Pricing both beat estimates; Personal care registers strong revival: The domestic volume of 6% YoY and price growth of 7% translating to revenue growth of 13% YoY was significantly higher than our expectations. All the segments registered double digit growth with Soaps and Detergents registering growth of 13% YoY, Personal care grew by 14.7% YoY, Beverages by 10.5% and Processed foods by 18.8% YoY. The growth in Personal Care was led by step up in growth of flagship brand- Fair and Lovely. Fair and Lovely is the biggest brand of the Personal Care category and the step up in growth in the category is a significant positive for volumes as well as profitability. Hair Care category growth was driven by volumes while the Oral care category showed improvement. In Oral care Close Up delivered double digit growth while Pepsodent continued to improve. The Skin cleansing category growth was driven by pricing as input cost inflation continued to persist. The Laundry segment growth was led by the premium portfolio.

EBIDTA registers sharp growth; Brand investments stay competitive: Gross profit grew by 11.7% YoY as gross margins declined by 70bps YoY to 46.4% on account of sustained input cost inflation. EBIDTA adjusting exceptional (one-time pension related credit of Rs 320mn to employee expenses) grew by 18% YoY was significantly higher than our expectations. Advertising expenses were higher than our estimates and grew by 6% YoY but declined as a % of sales by 80bps YoY. Decline in advertising spends cushioned the fall in gross margins and judicious cost savings in supply chain helped the company in expanding EBIDTA margins by 70bps to 16.6% notwithstanding the increase in royalty charges by 35bps YoY.

EBIT margins better than expectations in key categories: The soaps and detergents and personal care categories both reported better than expected margins of 13.4% and 27.2% even after adjusting for the one-time credit. EBIT for the S&D and Personal care grew by 17% YoY and 26% YoY respectively.

Revise estimates; upgrade recommendation to Buy: We have revised our FY15E and FY16E earnings estimates upwards by 3% and 14% respectively taking into consideration the better than expected improvement in personal care category, cost structure management and robust operating performance in a highly challenging environment. We upgrade the stock to BUY considering the step-up in growth in the most profitable personal care segment and HUL's ability to leverage its scale efficiencies to deliver higher-than-market average growth rate. We value the stock at 35x FY16E earnings (multiple in-line with Asian Paints) at Rs 770.

Upgrade to Buy

HUVR IN | CMP RS 686

TARGET RS 770 (+12%)

Company Data

O/S SHARES (MN) :	2163
MARKET CAP (RSBN) :	1485
MARKET CAP (USDBN) :	19.7
52 - WK HI/LO (RS) :	725 / 432
LIQUIDITY 3M (USDMN) :	11.6
FACE VALUE (RS) :	1

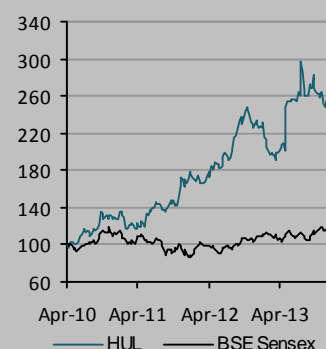
Share Holding Pattern, %

PROMOTERS :	67.3
FII / NRI :	15.7
FI / MF :	3.0
NON PROMOTER CORP. HOLDINGS :	1.2
PUBLIC & OTHERS :	12.8

Price Performance, %

	1mth	3mth	1yr
ABS	11.3	18.2	3.5
REL TO BSE	7.8	3.5	-28.0

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY14E	FY15E	FY16E
Net Sales	274,083	308,420	351,497
EBIDTA	50,963	59,343	70,170
Net Profit	36,983	39,860	47,691
EPS, Rs	17.1	18.4	22.1
PER, x	40.1	37.2	31.1
EV/EBIDTA, x	28.7	24.5	20.4
P/BV, x	45.3	30.4	20.8
ROE, %	112.9	81.8	66.9

Source: PhillipCapital India Research Est.

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Quarterly results table

(Rs mn)	Q1FY15	Q4FY14	QoQ, %	Q1FY14	YoY, %
Net sales	75,708	69,358	9.2	66,875	13.2
Growth, %	13.2	8.9		7.0	
Total income	77,163	70,941	8.8	68,090	13.3
Gross Profit	35,812	32,050	11.7	32,047	11.7
Margin, %	47.3	46.2		47.9	
Advertising Exp	9,449	8,403	12.4	8,898	6.2
as % of Sales	12.5	12.1		13.3	
Operating expenses	14,653	14,454	1.4	13,509	8.5
EBITDA	13,165	10,776	22.2	10,856	21.3
Margin, %	17.4	15.5		16.2	
Depreciation	667	650	2.6	664	0.4
EBIT	12,498	10,126	23.4	10,192	22.6
Margin, %	16.5	14.6		15.2	
Interest paid	63	63	-0.8	62	
Other Non-Operating Income	2,021	1,506	34.2	1,768	14.3
Pre-tax profit	14,457	11,569	25.0	11,897	21.5
Tax provided	4,249	3,479	22.1	3,047	39.5
Net Profit	10,208	8,090	26.2	8,850	15.3
Reported PAT	10,569	8,750	20.8	10,193	3.7
Growth, %	15.3	3.6		3.6	
Margin, %	13.5	11.7		13.2	
Extraordinary items: Gains/(Losses)	396	660		1,343	
Reported Fully Dilluted EPS, Rs	4.7	3.7	26.2	4.1	15.3

Source: Company, PhillipCapital India Research Estimates

Change in Estimates

(Rs mn)	___ Earlier estimates ___		___ Revised estimates ___		Upgrade/(downgrade) (%)	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Net Sales	301,232	335,638	308,420	351,497	2.4	4.7
EBITDA	55,860	61,645	59,343	70,170	6.2	13.8
PBT	52,653	58,171	56,137	66,696	6.6	14.7
Adj PAT	38,703	41,886	39,860	47,691	3.0	13.9
Adj PAT margin (%)	12.8	12.5	12.9	13.6	8 bps	109 bps

Source: Company, PhillipCapital India Research Estimates

Segment operating performance

Rs mn	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Soaps & Detergents	28,344	31,631	31,762	31,712	31,911	34,077	33,808	33,979	34,971	38,476
QoQ growth %	7.0	11.6	0.4	-0.2	0.6	6.8	-0.8	0.5	2.9	10.0
YoY growth %	28.4	23.7	22.3	19.8	12.6	7.7	6.4	7.1	9.6	12.9
Personal Products	16,333	18,471	17,445	20,489	18,311	18,834	19,503	23,039	19,833	21,596
QoQ growth %	-9.9	13.1	-5.6	17.4	-10.6	2.9	3.6	18.1	-13.9	8.9
YoY growth %	11.8	16.7	12.1	13.0	12.1	2.0	11.8	12.4	8.3	14.7
Beverages	6,832	6,541	7,196	7,929	8,081	7,574	8,354	8,500	8,690	8,366
QoQ growth %	1.9	-4.3	10.0	10.2	1.9	-6.3	10.3	1.7	2.2	-3.7
YoY growth %	7.6	7.5	10.0	18.3	18.3	15.8	16.1	7.2	7.5	10.5
Processed Foods	3,481	4,370	3,663	3,301	3,723	4,579	3,980	3,728	4,197	5,438
QoQ growth %	13.5	25.6	-16.2	-9.9	12.8	23.0	-13.1	-6.3	12.6	29.6
YoY growth %	9.7	17.4	10.2	7.7	7.0	4.8	8.7	12.9	12.7	18.8
Exports+Others	2,599	2,640	2,884	2,902	2,502	2,791	3,049	2,766	2,958	3,029
QoQ growth %	-49.1	1.5	9.2	0.6	-13.8	11.5	9.2	-9.3	6.9	2.4
YoY growth %	-23.9	-43.0	-38.1	-43.1	-3.7	5.7	5.7	-4.7	18.2	8.5
Total	57,588	63,651	62,949	66,334	64,529	67,854	68,694	72,011	70,649	76,904
Contribution										
Soaps & Detergents	49.2	49.7	50.5	47.8	49.5	50.2	49.2	47.2	49.5	50.0
Personal Products	28.4	29.0	27.7	30.9	28.4	27.8	28.4	32.0	28.1	28.1
Beverages	11.9	10.3	11.4	12.0	12.5	11.2	12.2	11.8	12.3	10.9
Processed Foods	6.0	6.9	5.8	5.0	5.8	6.7	5.8	5.2	5.9	7.1
Exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports+Others	4.5	4.1	4.6	4.4	3.9	4.1	4.4	3.8	4.2	3.9
Segment Results										
Soaps & Detergents	3,201	3,852	4,536	3,937	3,830	4,393	4,739	4,509	4,217	5,318
Segment Margins %	11.3	12.2	14.3	12.4	12.0	12.9	14.0	13.3	12.1	13.8
YoY change (in bps)	381.6	294.9	190.6	-102.4	71.0	71.3	-26.3	85.4	5.6	93.0
Personal Products	4,555	4,757	4,226	5,789	4,717	4,682	4,449	6,592	4,958	5,967
Segment Margins %	27.9	25.8	24.2	28.3	25.8	24.9	22.8	28.6	25.0	27.6
YoY change (in bps)	289.1	-20.5	-125.2	133.4	-212.8	-89.5	-141.3	36.0	-76.2	277.1
Beverages	984	950	1,031	1,404	1,362	1,387	1,417	1,373	1,630	1,363
Segment Margins %	14.4	14.5	14.3	17.7	16.9	18.3	17.0	16.2	18.8	16.3
YoY change (in bps)	-124.2	212.7	91.0	201.4	245.3	379.4	263.7	-155.2	190.8	-202.4
Processed Foods	(38)	248	9	(26)	140	384	133	(134)	230	591
Segment Margins %	-1.1	5.7	0.2	-0.8	3.8	8.4	3.3	-3.6	5.5	10.9
YoY change (in bps)	-255.4	100.0	-471.1	115.0	484.1	271.4	309.9	-279.8	171.9	247.5
Exports+Others	(112)	(43)	21	(186)	(181)	(31)	46	(135)	(251)	(155)
Segment EBIT Growth YoY %										
Soaps & Detergents	93.9	63.2	41.2	10.6	19.7	14.0	4.5	14.5	10.1	21.1
Personal Products	24.7	15.8	6.6	18.6	3.6	(1.6)	5.3	13.9	5.1	27.4
Beverages	(0.9)	25.9	17.5	33.5	38.4	46.1	37.5	(2.2)	19.7	(1.8)
EBIT Contribution %										
Soaps & Detergents	37.3	39.5	46.2	36.1	38.8	40.6	43.9	36.9	39.1	40.6
Personal Products	53.0	48.7	43.0	53.0	47.8	43.3	41.3	54.0	46.0	45.6
Beverages	11.5	9.7	10.5	12.9	13.8	12.8	13.1	11.2	15.1	10.4
Processed Foods	-0.4	2.5	0.1	-0.2	1.4	3.5	1.2	-1.1	2.1	4.5
Others	-1.3	-0.4	0.2	-1.7	-1.8	-0.3	0.4	-1.1	-2.3	-1.2

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Net sales	252,064	274,083	308,420	351,497
Growth, %	16.0	8.7	12.5	14.0
Other income	12,107	12,319	13,008	15,619
Total income	264,171	286,402	321,428	367,116
Raw material expenses	-134,888	-143,436	-160,041	-181,310
Employee expenses	-13,183	-14,360	-15,585	-17,134
Other Operating expenses	-69,993	-77,643	-86,459	-98,502
EBITDA (Core)	46,106	50,963	59,343	70,170
Growth, %	29.2	10.5	16.4	18.2
Margin, %	18.3	18.6	19.2	20.0
Depreciation	-2,360	-2,606	-2,856	-3,126
EBIT	43,746	48,357	56,488	67,044
Growth, %	29.2	10.5	16.4	18.2
Margin, %	18.3	18.6	19.2	20.0
Interest paid	-252	-360	-360	-360
Pre-tax profit	43,498	47,997	56,137	66,696
Tax provided	-10,030	-11,014	-16,277	-19,005
Profit after tax	33,468	36,983	39,860	47,691
Net Profit	39,552	39,269	39,860	47,691
Growth, %	28.1	10.5	7.8	19.6
Net Profit (adjusted)	33,468	36,983	39,860	47,691
Unadj. shares (m)	2,162	2,162	2,162	2,162
Wtd avg shares (m)	2,162	2,162	2,162	2,162

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Cash & bank	17,079	22,210	29,412	54,891
Debtors	8,335	8,164	9,560	11,207
Inventory	25,270	27,475	29,706	32,139
Loans & advances	10,326	11,432	12,337	13,884
Other current assets	707	719	719	719
Total current assets	61,717	70,000	81,734	112,840
Investments	23,307	30,941	30,941	30,941
Gross fixed assets	41,342	44,429	48,429	52,929
Less: Depreciation	-18,413	-20,208	-23,063	-26,189
Add: Capital WIP	2,156	3,198	3,198	3,198
Net fixed assets	25,085	27,418	28,563	29,937
Non-current assets	2,969	7	3,925	3,926
Total assets	115,126	129,984	146,781	179,262
Current liabilities	70,216	78,182	80,816	89,253
Provisions	18,170	19,034	17,228	18,733
Total current liabilities	88,386	97,216	98,044	107,986
Non-current liabilities	0	0	2	3
Total liabilities	88,386	97,216	98,046	107,989
Paid-up capital	2,163	2,163	2,163	2,163
Reserves & surplus	24,578	30,606	46,572	69,110
Shareholders' equity	26,740	32,769	48,735	71,273
Total equity & liabilities	115,126	129,984	146,781	179,262

Source: Company, PhillipCapital India Research Estimates

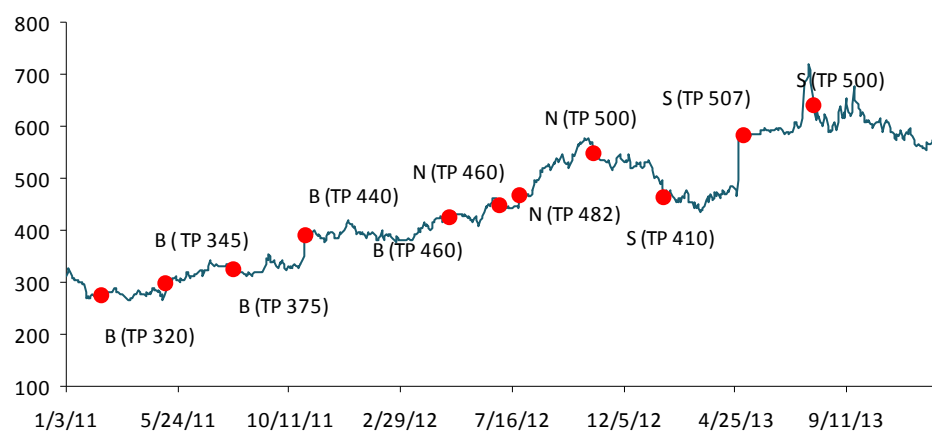
Cash Flow

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Pre-tax profit	43,498	47,997	56,137	66,696
Depreciation	2,360	2,606	2,856	3,126
Chg in working capital	1,694	7,776	-5,814	2,810
Total tax paid	-8,506	-12,966	-12,135	-18,040
Cash flow from operating activities	39,045	45,413	41,043	54,592
Capital expenditure	-3,815	-4,939	-4,000	-4,500
Cash flow from investing activities	-2,738	-12,573	-3,997	-4,496
Free cash flow	36,307	32,840	37,046	50,096
Dividend (incl. tax)	-42,228	-29,485	-29,832	-24,601
Cash flow from financing activities	-55,970	-29,485	-29,832	-24,601
Net chg in cash	-19,663	3,355	7,214	25,495

Valuation Ratios & Per Share Data

	FY13	FY14E	FY15E	FY16E
Per Share data				
EPS (INR)	15.5	17.1	18.4	22.1
Growth, %	28.1	10.5	7.8	19.6
Book NAV/share (INR)	12.4	15.2	22.5	33.0
FDEPS (INR)	15.5	17.1	18.4	22.1
CEPS (INR)	16.6	18.3	19.8	23.5
CFPS (INR)	19.4	19.6	20.8	25.3
DPS (INR)	18.5	13.0	9.5	10.0
Return ratios				
Return on assets (%)	29.9	30.4	29.0	29.4
Return on equity (%)	125.2	112.9	81.8	66.9
Return on capital employed (%)	108.7	125.1	98.4	79.9
Turnover ratios				
Asset turnover (x)	226.7	(158.2)	(212.3)	(539.3)
Sales/Total assets (x)	2.2	2.2	2.2	2.2
Sales/Net FA (x)	10.3	10.4	11.0	12.0
Working capital/Sales (x)	(0.2)	(0.2)	(0.1)	(0.1)
Fixed capital/Sales (x)	0.2	0.2	0.2	0.2
Working capital days	(63.3)	(65.8)	(54.1)	(52.0)
Liquidity ratios				
Current ratio (x)	0.7	0.7	0.8	1.0
Quick ratio (x)	0.4	0.4	0.5	0.7
Interest cover (x)	173.9	134.2	156.8	186.1
Dividend cover (x)	0.8	1.3	1.9	2.2
Net debt/Equity (%)	(63.9)	(67.8)	(60.4)	(77.0)
Valuation				
PER (x)	44.3	40.1	37.2	31.1
Price/Book (x)	55.5	45.3	30.4	20.8
Yield (%)	2.7	1.9	1.4	1.5
EV/Net sales (x)	5.8	5.3	4.7	4.1
EV/EBITDA (x)	31.8	28.7	24.5	20.4
EV/EBIT (x)	31.8	28.7	24.5	20.4

Recommendation Chart



Source: PhillipCapital India Research

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